



## **INTERNAL AUDIT DIVISION**

### **AUDIT REPORT 2013/032**

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**Audit of the acquisition and management of contract no. PD/C0123/10 for the provision of vehicles**

**Overall results relating to the economical acquisition and efficient and effective management of the contract were initially assessed as partially satisfactory. Implementation of two important recommendations remains in progress.**

**FINAL OVERALL RATING: PARTIALLY SATISFACTORY**

**27 March 2013  
Assignment No. AH2011/513/05**

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# AUDIT REPORT

## Audit of the acquisition and management of contract no. PD/C0123/10 for the provision of vehicles

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the acquisition and management of contract no. PD/C0123/10 for the provision of vehicles.
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure: (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations, and rules.
3. In light of the pending expiration of two prior contracts in April and June 2009 respectively, a procurement exercise was initiated in July 2008 and Requests for Proposal – Goods (RFPG) nos. 471 and 472 were issued for the purchase of 4x4 medium and heavy duty vehicles. This process was truncated by a decision of the Headquarters Committee on Contracts (HCC) in June 2009 to reject all the bids and re-bid the requirements due to observed flaws in the articulation of the mandatory requirements.
4. Contract no. PD/C0123/10 dated 23 August 2010 was established by the Procurement Division (PD) in conjunction with the requisitioner, the Logistics Support Division in the Department of Field Support (LSD/DFS) for the provision of various types of vehicles and spare parts, with a not to exceed (NTE) amount of \$115,989,200. As at August 2012, the contract expenditure was \$15 million. This contract was the culmination of five separate requests for proposals, RFPG nos. 507, 520, 521, 522 and 523, four of which were won by the same vendor and hence rolled up into one contract.
5. Comments provided by DFS and the Office of Central Support Services (OCSS) are incorporated in *italics*.

### II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of the Secretariat's governance, risk management and control processes in providing reasonable assurance regarding the **economical acquisition and efficient and effective management of contract no. PD/C0123/10 for the provision of vehicles**.
7. The audit was included in the 2011 OIOS risk-based work plan due to the high value of the contract and the criticality of vehicles to peacekeeping missions and other entities. Uneconomical acquisition or inefficient or ineffective management of the contract may lead to waste of resources or disruption of transport services.
8. The key controls tested for the audit were: (a) regulatory framework and (b) needs assessment. For the purpose of this audit, OIOS defined these key controls as follows:
  - (a) **Regulatory framework** – controls that provide reasonable assurance that policies and procedures: (i) exist to guide acquisition and contract management activities; (ii) are implemented consistently; and (iii) ensure reliability and integrity of financial and operational information.

(b) **Needs assessment** – controls that provide reasonable assurance that there are proper mechanisms in place to determine the requirements for the contract. This includes strategic planning, budgeting and requisitioning processes in DFS.

9. The key controls were assessed for the control objectives shown in Table 1.

10. OIOS conducted this audit from October 2011 to September 2012. The audit covered the period from June 2009 to August 2012.

11. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness. The audit covered requisitioning and contract award processes and compliance with contract terms. A sample of purchase orders (POs) and payment transactions were selected for detailed testing.

### III. AUDIT RESULTS

12. The Secretariat's governance, risk management and control processes examined were assessed as partially satisfactory in providing reasonable assurance regarding the **economical acquisition and efficient and effective management of contract no. PD/C0123/10 for the provision of vehicles**. OIOS made two recommendations to address issues identified in this audit. DFS accepted and is in the process of implementing both recommendations.

13. A system of regulatory controls, which includes the Financial Regulations and Rules, administrative issuances, guidelines, contract provisions and operational procedures including the Procurement Manual, was in place. However, the key control of regulatory framework relating to compliance with mandates, regulations and rules was rated as partially satisfactory because the vendor's performance was not evaluated at the due dates. The process of estimating vehicle requirements was not adequately documented and the number of vehicles specified in the contract turned out to be excessive, leading to the partially satisfactory rating of the key control of needs assessment.

14. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of two important recommendations remains in progress.

**Table 1: Assessment of key controls**

Business objective	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
<b>Economical acquisition and efficient and effective management of the contract for the provision of vehicles</b>	(a) Regulatory framework	Satisfactory	Satisfactory	Satisfactory	Partially satisfactory
	(b) Needs assessment	Partially satisfactory	Satisfactory	Satisfactory	Partially satisfactory
<b>FINAL OVERALL RATING: PARTIALLY SATISFACTORY</b>					

## **A. Regulatory framework**

### Steps are being taken to address the low response rates to vehicle bids

15. Five tenders were issued almost simultaneously (four bids issued on 2 March 2010 and one bid issued on 3 March 2010) for light passenger vehicles (4x4 medium duty, 4x4 heavy duty, 4x4 heavy duty utility, pick-ups, and light trucks/minibuses). The Procurement Division (PD) explained that the bids were separated into logical categories to reduce the administrative complexity for vendors and to make the tendering process more manageable. Between 26 and 31 vendors were invited for each bid; however, the number of actual bids received was much lower with a total of ten proposals received in all.

16. A review of vendors' explanations as to why they did not submit proposals showed that many of them did not have the capacity to supply the requirements. Additionally, two vendors had their bids disqualified from two separate bid exercises for non-compliance with bid regulations, thereby further reducing the number of bids that could be evaluated. The availability of relatively low numbers of bids for evaluation compared to the number of invitees limited the number of options from which the organization could choose. However, OCSS pointed out that vehicle prices in the current contract were between 20 and 31 per cent lower than the previous contract and that a 50 per cent discount was received on spare parts for all the models. In addition, the warranty in the current contract was extended to three years instead of two years.

17. To improve participation by major manufacturers and vendors around the world, PD had contacted all Member States' missions to the United Nations and organized a bidders' conference to explain the requirements. To make solicitation exercises from the United Nations more attractive, the High Level Committee on Management - Procurement Network embarked on a project to collaborate on the procurement of vehicles. The project will explore the possibility of standardizing the fleet for 11 major United Nations entities worldwide and developing and implementing long-term agreements with manufacturers. The project is expected to be concluded in February 2014. Due to ongoing initiatives to promote consolidated and strategic planned purchasing of vehicles across the United Nations, OIOS did not make a recommendation.

### No formal vendor performance evaluation carried out to date

18. Various aspects of contract management such as the issuance of POs, receipt and inspections of deliveries, payments of vendor invoices, user training and communications with the vendor were reviewed and were found to be satisfactory. The audit noted that LSD/DFS had developed an adequate administrative system to monitor the performance of system contracts of vehicles in general, through regular communication with peacekeeping missions and the vendor. However, LSD/DFS did not use this system to collate information and formally report on the vendor's performance two years after the contract was signed. The Procurement Manual requires that the Contract or Performance Report (Annex D-6C) be used to evaluate contracts that exceed \$200,000 or long-term contracts of two or more years in duration once a year. At the time of the audit, POs had been issued for 13.5 per cent of the total estimated NTE and the first of the orders was executed in November 2010.

19. The Procurement Manual also requires the requisitioner and/or end-user to develop the performance measurement criteria, which should be included in the solicitation documents and in the contract; however, no performance indicators were specified in either document.

20. Performance evaluation is an important part of contract management to ensure that vendors perform satisfactorily and to promptly identify and correct any issues in a timely manner.

**(1) DFS should, in coordination with OCSS, develop performance evaluation criteria and evaluate the performance of the vendor supplying services under contract no. PD/C0123/10 annually as required by the Procurement Manual.**

*DFS accepted recommendation 1 and stated that the first part of the recommendation had been implemented. Noting the inadequacy of the previously published vendor evaluation forms, DFS has developed an improved framework to conduct vendor performance evaluations. It consists of a tracking database, which monitors delivery time, completeness and accuracy as compared to contractual terms, for each PO. DFS has also developed a revised performance evaluation form, which has been shared with OCSS. Implementation of the second part of the recommendation is ongoing and the evaluation will be conducted as the new framework and forms get populated with information from the field. This new form will be used to evaluate the vendor performance for PD/CO123/10. Recommendation 1 remains open pending receipt of the first report under the new vendor performance evaluation framework.*

## **B. Needs assessment**

### Insufficient documentation of process for arriving at vehicle quantities required

21. According to DFS, the quantities of vehicles required as included in the Statement of Requirements (SOR) was determined based on past experience, various missions' requirements, new missions anticipated, and expected number of vehicles reaching the end of their useful lives. However, the process was not documented and could therefore not be independently verified. In the first two years of contract no. PD/C0123/10, actual purchases were approximately 78 per cent less than the estimated quantities (See Table 2). Although the contract included provisions to prevent a claim by the vendor should orders fall short of the NTE, steps should have been taken to ensure that SORs reflected realistic estimates of needs. This would have guarded against the risks that potential vendors with capacity to supply fewer than the stipulated quantities would be discouraged from participating in the procurement action and the resulting contract would not be fair to all concerned. (For example, the bank guarantee required to be established at 10 per cent of NTE would have been for a lower amount.)

**Table 2: Comparison of the estimated needs to the actual orders for years 1 and 2**

<b>Vehicle type</b>	<b>Estimated quantities in years 1 and 2</b>	<b>Actual purchases in years 1 and 2</b>	<b>Variance</b>
Light Trucks	402	106	-74%
Heavy Duty Utility	387	6	-98%
Medium Duty Utility	1,599	454	-72%
Pick Ups	280	14	-95%
<b>Total</b>	<b>2,668</b>	<b>580</b>	<b>-78%</b>

22. DFS explained that the SOR which was developed in 2007 was done for the purpose of replacing the contract and not as part of the annual budgetary process for vehicles. A major priority for DFS is the need to ensure that contracts established have sufficient NTE amounts to last the duration of the contract, limit the incidences of requesting PD for an increase in NTE amounts prior to the expiration of the contracts, while avoiding a scenario which may be perceived as fragmenting requirements and depriving the organization of benefiting from positive economies of scale. DFS described the process used to determine the estimates in the SOR and stated that the closure of the United Nations Mission in the

*Central African Republic and Chad (MINURCAT) and the United Nations Mission in Sudan (UNMIS) and the downsizing of a number of missions were not foreseen at the time of forecasting requirements for the contract. In addition, as an outcome of DFS efforts to improve efficiency in resource usage, the life expectancy of vehicles was increased thus further reducing the need to replace vehicles earlier.*

23. OIOS notes the explanation provided but is of the view that DFS needs to maintain adequate documentation of the process for determining its vehicle quantity requirements, which should form part of its records and guide future procurement actions.

**(2) DFS should develop and document the process of determining statements of requirements for vehicles to make future estimates more realistic.**

*DFS accepted recommendation 2 and stated that it will document the process of determining the requirements for vehicles in the next solicitation exercise. Recommendation 2 remains open pending receipt of the documented process for determining requirements for vehicles in solicitation exercises.*

#### **IV. ACKNOWLEDGEMENT**

24. OIOS wishes to express its appreciation to the Management and staff of DFS and OCSS for the assistance and cooperation extended to the auditors during this assignment.



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David Kanja, Assistant Secretary-General  
Office of Internal Oversight Services



## STATUS OF AUDIT RECOMMENDATIONS

## Audit of the acquisition and management of contract no. PD/C0123/10 for the provision of vehicles

Recom. no.	Recommendation	Critical <sup>1</sup> /important <sup>2</sup>	C/O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
1	DFS should, in coordination with OCSS, develop performance evaluation criteria and evaluate the performance of the vendor supplying services under contract no. PD/C0123/10 annually as required by the Procurement Manual.	Important	O	Submission of the first report under the new vendor performance evaluation framework.	September 2013
2	DFS should develop and document the process of determining statements of requirements for vehicles to make future estimates more realistic.	Important	O	Submission of the process for determining requirements for vehicles in solicitation exercises.	March 2014

<sup>1</sup> Critical recommendations address significant and/or pervasive deficiency or weakness in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

<sup>2</sup> Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

<sup>3</sup> C = closed, O = open

<sup>4</sup> Date provided by DFS in response to recommendations.